Finance Committee

Date: **13 October 2016**

Item: **Merchant Acquiring Contract**

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This paper will be considered in public

1 Summary

1.1 This paper outlines the process undertaken to procure a replacement contractor to provide TfL with "merchant acquiring" services. These are necessary to enable TfL to accept credit and debit card payments. The Committee is asked to recommend that the Board approve entry into a contract with the preferred bidder.

1.2 A paper is included on Part 2 of the agenda which contains exempt supplementary information. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendation

2.1 **The Committee is asked to note the paper the supplemental information on Part 2 of the agenda and recommend that the Board approves Procurement Authority of up to £380m over ten years for the award of the Merchant Acquiring Contract to the supplier recommended in the paper on Part 2 of the agenda.**

3 Background

3.1 The merchant acquiring contract covers the processing and settlement of monies from major card schemes, including Visa and MasterCard, for credit and debit card transactions for the TfL Group. Over the ten year period, an estimated £60bn of revenue will be processed.

3.2 The transactions include ticket sales, Oyster sales, congestion charging payments, retail sales through the London Transport Museum, contactless transactions and all other card transactions whether on-site at ticket machines and visitor centres or off-site through telesales and internet purchases.

3.3 TfL led the world in the development of contactless payments and has accepted these on buses since 2012 and on the rest of the system since 2014. The use of contactless payments is growing steadily and now accounts for a third of our pay as you go journeys, with further growth expected in the future.

3.4 The current merchant acquiring contract expires on 31 December 2016. The new appointment is proposed for an initial term of seven years with an option to extend the term for up to a further three years. The underlying rationale for the length of the contract is that the contactless ticketing element will require a potential new supplier to adapt its current retail contactless system to cope with a transit ticketing model. This would in turn require any new supplier to make a significant capital investment. The extended contract period would allow a new supplier to make a return on any such capital investment.

3.5 The paper at item 10 of this agenda relates to TfL's claims in relation to Multi-lateral Interchange Fees. These claims are separate from and unaffected by the letting of the new merchant acquirer contract.

4 Procurement Summary

4.1 A competitive procurement process to identify a successor contractor to provide merchant acquiring services was initiated in January 2016, with an invitation to tender issued to three bidders. The preferred bidder and one of the other three suppliers provided responses to the tender. The third chose not to respond because they were migrating existing customers to new platforms and therefore could not commit to fulfilling our requirements.

4.2 Following the technical and commercial evaluation, which included a round of clarification meetings and a best and final offer stage, the final evaluation has identified the highest scoring bidder. The scores for each bidder are shown included in the supplemental information on Part 2 of the agenda.

4.3 It is therefore recommended that the Merchant Acquirer Contract be awarded to that highest scoring bidder.

4.4 The contract is based on the existing contract, which is an industry standard, which has been updated to reflect changes in the payment industry and takes into account TfL's requirements in relation to contactless ticketing.

5 Financial Implications

5.1 We are seeking authority to enter into a contract of up to £380m over a ten year period. As mentioned, earlier, this contract covers the cost of processing an estimated £60bn in revenue from card transactions, including provision for expansion in the use of our payments systems. The £380m is not a fixed fee and may be lower based on actual usage of payment cards. This covers a wide scope of provision including future projects such as the expansion of Crossrail and other transport networks.

5.2 Comparing costs in the previous contract with the new contract results in an estimated saving of approximately 0.8 per cent on the full value of the contract. This saving is calculated by comparing current rates with the new rates offered. Although the total value of the contract is up to £380m, approximately 95 per cent of this is comprised of Interchange and card scheme fees (for Visa and MasterCard). The amount that would be paid to the merchant acquirer is around £19m. This is for processing fees, which is the only element of the costs that this contract can influence.

5.3   The pricing mechanism is made up of:

(a) the interchange fee, set by card schemes, within the bounds of EU and UK regulation (payable to the card issuer);

(b) the scheme fee, also set by the card schemes, and also within the bounds of EU and UK regulation (charged by Visa or Mastercard); and

(c) the processing fee (charged by the merchant acquirer).

This pricing mechanism is an industry standard in this market and is used in the current contract.

5.4   There are additional charges for other transactions such as rental payments for the PDQ (Process Data Quickly) payment terminals).

5.5   The interchange and scheme fees are variable and respond to changes imposed by the card schemes. The processing fee is volume related.

List of appendices to this report:

None

List of Background Papers:

None

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